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**South Carolina  
Division of General Services**

# PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

DEPARTMENT OF LABOR

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AGENCY

JANUARY 1, 1990 - DECEMBER 31, 1992

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DATE



STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
DIVISION OF GENERAL SERVICES



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JAMES J. FORTH, JR.  
ASSISTANT DIVISION DIRECTOR

February 16, 1993

Mr. Richard W. Kelly  
Director  
Division of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

Dear Rick:

I have attached the procurement audit of the Department of Labor as prepared by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant a three (3) year certification as outlined in the report.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director

JJF/jlj

Attachment

STATE OF SOUTH CAROLINA  
DEPARTMENT OF LABOR  
PROCUREMENT AUDIT REPORT

JANUARY 1, 1990 - DECEMBER 31, 1992

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LUTHER F. CARTER  
EXECUTIVE DIRECTOR

February 10, 1993

Mr. James J. Forth, Jr.  
Assistant Division Director  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Jim:

We have examined the procurement policies and procedures of the South Carolina Department of Labor for the period January 1, 1990 - December 31, 1992. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Labor is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.



Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Labor in compliance with the State Consolidated Procurement Code and ensuing regulations.

A handwritten signature in black ink, appearing to read "Voight Shealy", is written over the typed name.

R. Voight Shealy, CFE, Manager  
Audit and Certification

## SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Labor and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgemental samples for the period January 1, 1990 through December 15, 1992, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) All sole source and emergency procurements and trade-in sales for the period January 1, 1990 - September 30, 1992
- (2) Property management and fixed asset procedures; traced eighteen purchased items to fixed asset listing
- (3) Purchase transactions for the period January 1, 1990 - December 15, 1992
  - a) Seventy-seven payments each exceeding \$500
  - b) All sealed bids for January 1, 1990 through December 15, 1992, total of 10
  - c) Block sample of two hundred sequential purchase orders for two months of activity



- (4) Minority Business Enterprise Plan and quarterly reports
- (5) Procurement staff and training
- (6) Procurement procedures
- (7) Information Technology Plan

## RESULTS OF EXAMINATION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Labor for the period January 1, 1990 through December 31, 1992. Our on-site review was conducted December 8-18, 1992, and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

Most recently, on June 27, 1990, the Budget and Control Board granted the South Carolina Department of Labor the following procurement certification:

<u>Category</u>	<u>Requested Limit</u>
Goods and Services	\$ 10,000 per commitment

Since that certification expires June 27, 1993, this audit was performed primarily to determine if recertification is warranted.

While the Department has maintained a professional and efficient procurement system since our last audit, we did note the following items which should be addressed by Management.

(1) A section ordered two camcorders and a recorder playback unit on two different requisitions on the same day. The procurement section did not combine the requisitions. The resulting purchase orders were P0930421 for \$1,454.25 and P0930422 for \$2,205.00.

Section 11-35-1550 states that procurements shall not be divided to avoid competition requirements.

Had these procurements been combined, sealed bids would have been required. However, the procurement section solicited three written quotes instead.

We recommend that all sections combine like items on purchase orders and procurement combine requisitions when possible to determine competition requirements.

(2) The Department established an "open" purchase order for maintenance services at \$412.50 per month on PO920058. Total expended under this purchase order was \$3,715.00. No evidence of competition, sole source or emergency was available in the file.

Section 11-35-1510 of the Consolidated Procurement Code lists the methods of source selection.

We recommend that the Department procure these services in accordance with this section of the Code.

(3) The Department solicited sealed bids under Bid Number 92-001 for an employee honesty bond. The award was for three years in the total amount of \$3,915.00. No multi-term determination was prepared.

Section 11-35-2030 of the Code states, in part, "... a contract for supplies or services shall not be entered into for any period more than one year..."

Accordingly, we recommend that the Department prepare a multi-term determination any time a contract has an option to extend or exceeds one year.




## CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the Department of Labor in compliance with the South Carolina Consolidated Procurement Code.

In order to determine that corrective action has been taken, we will perform a follow-up audit prior to February 28, 1993. If, at that time, we determine that corrective action has been taken we will recommend that the Department of Labor be recertified to make direct agency procurements for a period of three (3) years up to the following limit:

<u>Procurement Area</u>	<u>Recommended Certification Limit</u>
Goods and Services	*\$10,000 per purchase commitment

\*The total potential commitment to the State whether single year or multi term contracts are used.

  
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Melissa Rae Thurstin  
Compliance Analyst

  
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R. Voight Shealy, CFE, Manager  
Audit and Certification



State of South Carolina  
Department of Labor

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Virgil W. Duffie, Jr. • Commissioner

January 22, 1993

R. Voight Shealy, Manager  
Audit and Certification  
Budget & Control Board  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the exceptions noted on the draft of the "Results of Examination" section of the letter sent to James Forth on January 6, 1993. I have addressed each item individually.

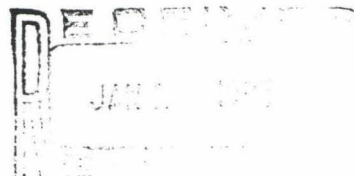
The requisitions for the Camcorders and the Recorder Playback were received in Procurement at different times and quotes were requested separately. The requisition system will automatically combine requisitions that are dated the same day. We have instructed all divisions to combine in-house requisitions for like or similar type items.

The maintenance contract on the Federally funded DP equipment had previously been provided by the Federal Government. The Agency received a letter instructing us to provide maintenance until a new Federal contract could be obtained. We understood that it would be handled promptly. Our equipment would have had to be inspected for a fee if we had changed to a new company. A contract was not promptly obtained by the Federal Government. An announcement was made to purchase new equipment, but the time of delivery was consistently delayed. We had no way of knowing that the maintenance agreement would extend for the length of time that it did. The terms of the purchase order was for month to month. We will not issue open purchase orders in the future that may exceed the procurement levels of competition without getting necessary quotes or bids.

The contract for the insurance bond was awarded for three years because this is the normal length of time for an employee honesty bond. We have put steps in our procedures to include a multi-term determination form in our files for future multi-term contracts.

Sincerely,

George H. Ropp,  
Director of Administration



STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
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EXECUTIVE DIRECTOR

February 16, 1993

Mr. James J. Forth, Jr.  
Assistant Division Director  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Jim:

We have reviewed the response to our audit report of the Department of Labor covering the period January 1, 1990 - December 31, 1992. Combined with observations made during our site visit and documentation submitted by the Department, this review has satisfied us that the Department has corrected the problem areas found and that internal controls over the procurement system are adequate.

We, therefore, recommend that the certification limits for the Department of Labor outlined in our audit report be granted for a period of three (3) years.

Sincerely,

R. Voight Shealy, Manager  
Audit and Certification

RVS/jj

Total Copies Printed - 33  
Unit Cost - .69  
Total Cost - 22.77



